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Abitibi

**Abitibi Paper Company Ltd.
Annual Report 1966**





Abitibi Paper Company Ltd.

Incorporated under the laws of Canada

Head Office: 408 University Ave., Toronto, Canada

Annual Report for the year ended December 31, 1966

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The annual meeting of shareholders will be held
at the Royal York Hotel in the City of Toronto
on Thursday, the thirteenth day of April, 1967
at the hour of eleven-thirty in the forenoon

On peut obtenir ce rapport annuel en français
sur demande.

Cover Photo

The forest is the continuing resource of our future.
Search its depths—look skyward through the
stately magnificence of growing timber. There is
creation itself, the full cycle of natural life.
Our cover photo was taken with the revolutionary
“fish eye” camera lens. The camera was placed
on the floor of the forest, in the centre of the stand
of living trees shown on the opposite page.

Directors

Douglas W. Ambridge, Chairman of the Board, Abitibi Paper Company Ltd., Toronto, Canada
Thomas J. Bell, President, Fiberglas Canada Ltd., Toronto, Canada
Harry J. Carmichael, Industrialist, Toronto, Canada
C. Antoine Geoffrion, Q.C., Geoffrion & Prud'homme, Montreal, Canada
Allan Graydon, Q.C., Blake, Cassels & Graydon, Toronto, Canada
Charles L. Gundy, President, Wood, Gundy & Company Limited, Toronto, Canada
Franklin T. McClintock, Drexel Harriman Ripley, Inc., New York, U.S.A.
T. Rodgie McLagan, Chairman of the Board, Canada Steamship Lines, Limited, Montreal, Canada
Theodore O. Peterson, Chairman of the Board and President, The Investors Group, Winnipeg, Canada
Robert H. Reid, President and Managing Director, London Life Insurance Company, London, Canada
Paul E. Roberts, President and Chief Executive Officer, Abitibi Paper Company Ltd., Toronto, Canada
The Rt. Hon. Lord Thomson of Fleet, Publisher, London, England
John A. Tory, Q.C., Tory, DesLauriers & Binnington, Toronto, Canada
Honorary Director, Joseph P. Ripley

Officers

Paul E. Roberts, President and Chief Executive Officer
Douglas W. Ambridge, Chairman of the Board
George M. Brain, Senior Vice-President—Fine Papers Group
Robert E. E. Costello, Senior Vice-President—Operations
Robert C. Gimlin, Senior Vice-President—Board Products Group
C. Harry Rosier, Senior Vice-President—Planning and Development
W. Stanley Rothwell, F.C.A., Senior Vice-President—Finance and Treasurer
J. Elliot Cottrelle, Vice-President—Sales (Newsprint and Pulp)
E. Edward Grainger, Vice-President—Woodlands
T. N. McLenaghan, Vice-President—Manufacturing (Newsprint and Pulp)
James Flintoft, Q.C., Secretary
Roy Curtis, C.A., Comptroller and Assistant Treasurer
William H. S. Pote, Assistant Treasurer
Michael D. Thompson, Assistant Secretary

Transfer Agents and Registrars

Montreal Trust Company, Toronto, Montreal, Vancouver, Halifax, Winnipeg and Calgary, Canada
First National City Bank, New York, U.S.A. (Transfer Agent)
Bankers Trust Company, New York, U.S.A. (Registrar)

Auditors

Price Waterhouse & Co., Toronto, Canada

Abitibi Paper Company Ltd.

Comparative Summary

1966

1965

Net sales	\$211,167,324	\$194,411,148
Depreciation and depletion	\$ 11,599,195	\$ 10,486,453
Net earnings before taxes on income	\$ 31,032,921	\$ 32,896,007
 Taxes on income—current	\$ 7,957,000	\$ 8,092,000
—deferred	7,148,000	8,068,000
—total	\$ 15,105,000	\$ 16,160,000
 Net earnings after all taxes on income:		
Amount	\$ 15,927,921	\$ 16,736,007
Per share	\$.91½	\$.96¼
 <i>Net earnings after current taxes on income but before deferred taxes on income:</i>		
Amount	\$ 23,075,921	\$ 24,804,007
Per share	\$ 1.32½	\$ 1.42¾
 Dividends declared on common shares	\$ 9,741,181	\$ 9,727,742
Per common share	\$.56	\$.56
Capital expenditures	\$ 24,572,294	\$ 31,621,570
Outstanding long term debt	\$ 47,700,400	\$ 60,807,220
Equity of shareholders	\$170,568,792	\$164,051,473
Number of shareholders	33,578	31,148

Report to the Shareholders

*growth, expansion
and record net sales*

The year 1966 was one of growth and expansion for Abitibi. Although extensive expansion and improvement programs were under way, we manufactured and sold more products, in greater variety, than ever before. Thus, after a record sales year, we are better equipped to service pulp, paper and board markets in 1967 and future years.

Throughout our organization we continued to stress quality of product and service to customers.

Net sales of \$211,167,324 are the highest in our history and compare with \$194,411,148 in 1965, an increase of 8.6%. Net earnings of \$15,927,921 compare with \$16,736,007 in 1965, a decrease of 4.8%. Earnings per common share are 91½¢ compared with 96¼¢ in 1965.

*start-up costs a large
factor in lower net
earnings*

Pre-production and start-up expenses charged against the year's earnings were the largest single factor contributing to reduced net earnings. However, the decrease also reflects a strike at our largest hardboard plant and interruptions in rail, truck and water shipments caused by strikes in the transportation industries.

Production costs increased due to higher wage rates and material costs. While there were some increases in selling prices, they were insufficient, in the aggregate, to offset the rising costs of labour and materials.

In addition to the absorption of all pre-production and start-up costs, we followed the conservative practice of providing, in full, for estimated income taxes resulting from 1966 earnings—both the amount currently payable and the amount deferred. These steps are consistent with policies followed in previous years.

The relationship between United States and Canadian dollars, of great importance to our industry, was relatively stable. The premium on U.S. funds was at or near 7½% for most of the year.

*dividends—at annual
rate of 56¢ per share*

Dividends on common shares were declared and paid at the annual rate of 56¢ per share established in 1963. Dividends are 61% of 1966 earnings. Payment dates of the quarterly dividend of 14¢ per share were the first days of January, April, July and October.

Early in the year the names of five of our prominent wholly-owned subsidiary companies were changed to identify these subsidiaries more closely with the parent company and, where appropriate, with the products that they manufacture or sell. The new names are—Abitibi Paper Sales Ltd., Abitibi Containers Ltd., Abitibi Panel Products Ltd., Abitibi Manitoba Paper Ltd. and Abitibi St. Anne Paper Ltd.

The name of Provincial Paper, Limited, our wholly-owned fine paper subsidiary, continues unchanged. This subsidiary has achieved an outstanding position in the Canadian paper trade as a reliable supplier of a wide range of quality printing papers and we have chosen to continue this name without amendment.

Conditions in the Industry

The Canadian pulp and paper industry experienced the largest increase in output ever achieved in any one year. While increases in manufacturing costs were common throughout the industry, operations were at or close to effective capacity in response to an upsurge in demand, particularly from markets in the United States. Value of industry production increased to about 2.3 billion dollars, and exports of some 1.6 billion accounted for approximately one sixth of Canada's export trade.

Canada is now the world's largest exporter of both newsprint and pulp. The outlook is favourable and indicates that demand will continue at a high level during 1967.

*newsprint use
increases here and
throughout the world*

Newsprint consumption in North America reached an all-time high in 1966 and was more than 7% greater than in 1965. The high level of economic activity throughout the continent was a principal factor, reflecting in increased newspaper circulation and a substantial increase in newspaper advertising. Newsprint consumption also increased elsewhere in the world with a growth rate higher than 4%, which is similar to the experience of recent years. For the third successive year, consumption of newsprint throughout the world increased more than the rise in productive capacity. Canadian newsprint mills operated at near capacity levels and provided about 78% of North America's newsprint production. Distribution of Canadian industry shipments was: Canada—7%, United States—79% and overseas markets—14%.

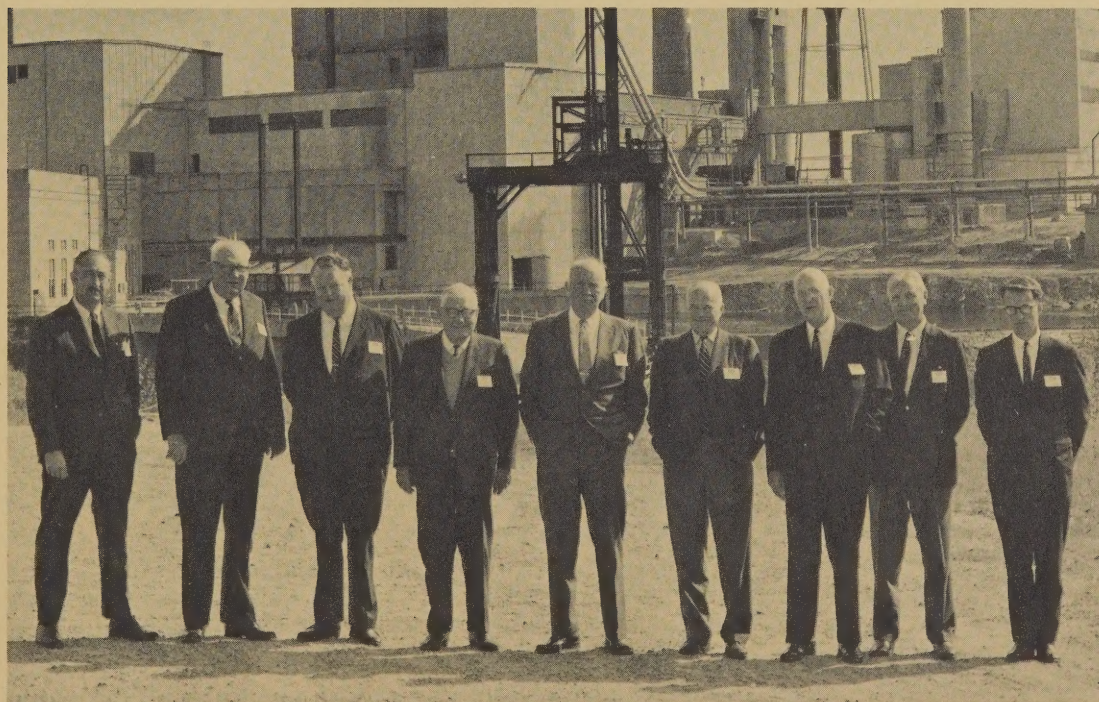
*our newsprint output
up 61,517 tons*

Abitibi Newsprint Production a New Record

Newsprint production of 890,810 tons compares with 829,293 tons in 1965. This record volume was attained despite the fact that our Sault Ste. Marie mill produced less newsprint than in 1965 as a result of the transfer of additional machine time to the production of groundwood specialty grades.

Newsprint continues to be our most important product and again accounted for slightly more than half of our dollar sales. To partially offset rising production costs, selling prices in North America were increased near mid-year by \$5.00 per ton, close to 4%.

Although strikes in the transportation and shipping industries created storage and delivery problems that made customer service difficult and costly, we maintained our mills in operation and met customer requirements. This was accomplished by the adoption of unusual storage and delivery procedures.



Directors' visit,
Smooth Rock Falls mill,
August 11, 1966.
left to right:
T.J. Bell,
R.H. Reid,
C.A. Geoffrion, Q.C.,
The Rt. Hon.
Lord Thomson of Fleet,
D.W. Ambridge,
C.L. Gundy,
P.E. Roberts,
T.O. Peterson,
J.A. Tory, Q.C.,
Absent when the picture
was taken:
H.J. Carmichael,
Allan Graydon, Q.C.,
F.T. McClintock,
T.R. McLagan,

*mills can operate
seven days
when needed*

In January, 1966, we placed our Beupre, Quebec, mill on seven-day operation. Production of newsprint at that mill has been continuous since that time. All of our other newsprint mills are on a six-day operating basis. The transfer of any of our mills to a seven-day basis introduces higher wage rates that continue whether or not seven-day operation is sustained. For this reason, and because we are meeting demands with the existing operating plan, we have not commenced seven-day operation at other mills but we will do so when warranted by market demands. The availability of additional newsprint production through seven-day operation provides us with growth capacity when required and, from a customer viewpoint, is an assurance of our ability to meet commitments.

In this very important segment of our business, we are continually taking full advantage of new developments and manufacturing techniques by introducing changes and improvements to reduce costs, increase output and improve quality characteristics that are rated as most desirable by our customers.

Increased Volume of Fine Papers

Production of fine, printing and groundwood specialty papers amounted to 158,430 tons as compared with 136,720 tons in 1965, an increase of close to 16%.

All mills of Provincial Paper, Limited ran to virtual capacity during 1966 with shipments reaching an all-time high. Late in the year we introduced new marketing practices to encourage longer runs on paper machines and to reduce down time for grade changes. At the same time, some price adjustments were announced to counter the impact of rising costs. Every effort was made to keep these advances to an acceptable level through close attention to efficient production practices.

*Port Arthur's
"Big Twin" enlarges
our product line*

Installation was completed near mid-year of the new 30,000 ton twin-wire paper machine at Port Arthur. This machine, with the latest in papermaking and coating equipment, is the largest of its type in North America. While we experienced an inordinate delay in delivery of equipment and a longer than anticipated break-in period, new grades from this machine were being introduced to the market as the year closed and were accorded an enthusiastic reception. *The cover of this annual report is printed on "Twincoat", a new heavyweight paper grade coated both sides on the new machine.* The versatility of grades from this machine, in coated and uncoated papers, will considerably enlarge our product lines, including grades not previously produced in Canada.

*"Kromekote"
production at
Georgetown in 1967*

Provincial Paper, Limited has entered into an exclusive licencing agreement with Champion Papers Inc. authorizing Provincial to manufacture Champion's internationally known "Kromekote" cast coated papers in Canada. "Kromekote" is a well established high gloss paper developed by Champion. Its brand name is recognized around the world. It is used extensively for advertising displays, packaging, labels, greeting cards, post cards, covers, etc. Specially designed equipment is now being installed at our Georgetown mill. Production is scheduled to commence during the second quarter of 1967.

The market outlook for fine papers is very favourable. A burgeoning school population, increasing use of business papers and a continuing high level of advertising in publications and by direct mail, all point to a buoyant demand for our products. Our fine paper company is in a stronger position than ever before to meet the requirements of Canada's fine paper markets.

Research and Development

Research is a vital link between forest resources and our many products of today and tomorrow.

Through research, we develop, assemble, evaluate and apply scientific knowledge with the objective of improving the performance of the company in the marketplace. Such a philosophy has guided Abitibi since its earliest pioneering ventures into the science of pulp and papermaking. This same philosophy is supported today by consistent success in the development of improved products, new products, more efficient and more profitable methods of operating our plants.



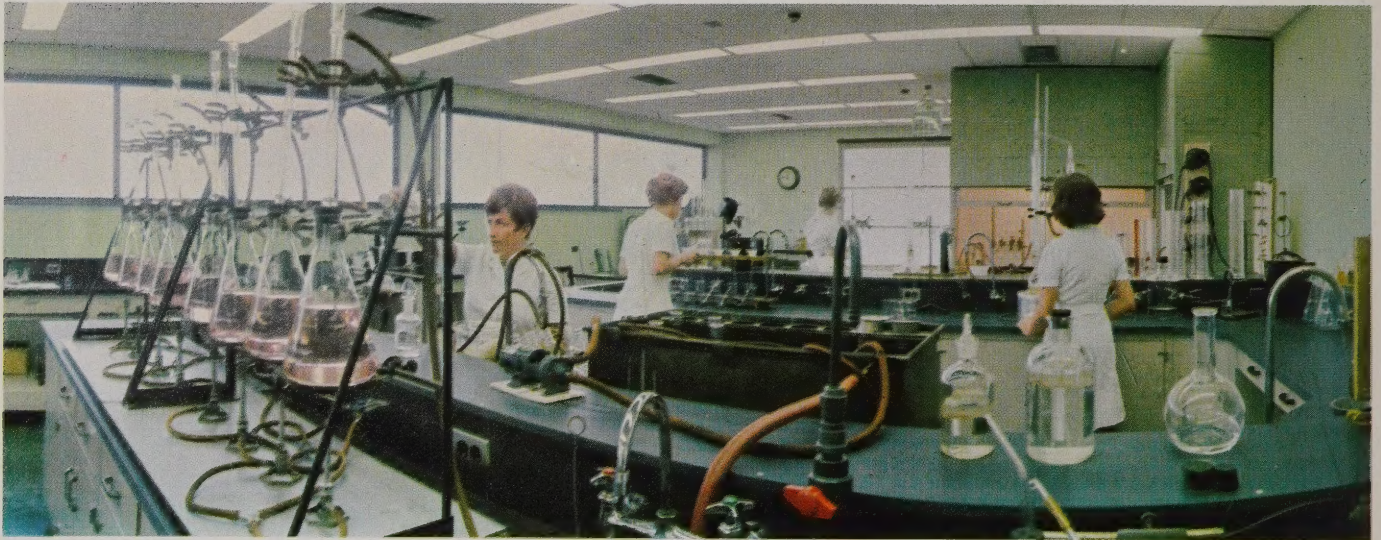
Confidence in our research philosophy is tangibly expressed, by the opening of the company's new research centre, shown here, in the Sheridan Park Research Community near Toronto. Here, in a dynamic setting shared by prominent Canadian companies, and government institutions, is an unique assembly of scientific knowledge. Sheridan Park, located close to our corporate headquarters and universities, is Abitibi's nerve centre of scientific communications with all branches of our company. Housed in this new building is the finest electronic and physical testing equipment available. In addition, there are unique installations, such as miniature pulping machines and commercial printing presses that enable us to test, evaluate and improve product performance.

Planning for paper research projects brings together manufacturing, sales and research personnel, shown in session in the photo at right.

Analytical Laboratory at Abitibi's Research Centre, below, provides facilities for chemical analysis of products and of the furnishes used in new product development.

Pulping Research is carried out in the pilot plant at Sheridan Park on special equipment, bottom left, that simulates manufacturing processes used in our mills.

Printing Performance of Abitibi papers is tested on a web offset press, bottom right, one of three commercial presses in use at the Centre.



Hardboard and Building Materials

*Canada-United States
homebuilding off
in 1966 . . .*

Abitibi participates in many segments of the building materials industry and, as well, furnishes hardboards and particle boards for industrial uses. In the United States, these products are produced and marketed by a wholly-owned subsidiary, Abitibi Corporation, with plants at Alpena, Michigan; Chicago, Illinois; and Cucamonga, California. Principal products encompass all types of hardboard for the building material and industrial markets, as well as many different types of predecorated wall panellings. In Canada, similar lines of hardboard products are manufactured and marketed along with particle boards, hardwood veneered panels for home and industry and fine hardwood veneers for export. Some of the board products that are manufactured in Canada reach U.S. consumers through the facilities of Abitibi Corporation.

*. . . remodelling and
improvements help
take up building slack*

The building materials industry in the United States was depressed in 1966 with a declining trend throughout the year. Housing starts were down 18% and competition for the remaining demand was keen in all product lines. However, many of our panel products are well suited to the home remodelling and improvement market. This market did not experience a decline comparable to that in new housing and therefore provided good sales opportunities. We expect that the home remodelling market will continue to offer expanding growth potential and stability, helping to offset the adverse effect of declining new construction until this market improves. Demand for our products for industrial applications was well maintained and increased emphasis is being placed on this market. Sales volume of Abitibi Corporation was down only slightly from 1965. However, earnings were considerably lower, due principally to a four-week strike at Alpena and unsettled competitive conditions. This regrettable strike was costly to all concerned. After agreement was reached on a new two-year contract, it was several weeks before efficient and normal production was re-established.

During 1966, we consolidated the head office and administrative functions of Abitibi Corporation at Birmingham, Michigan, on the outskirts of Detroit with resulting improvement in management planning and control. Non-recurring costs connected with this move were absorbed against 1966 earnings.

*new Montreal
warehouse
better serves Quebec*

The building materials market in Canada followed a pattern similar to that in the United States. New housing starts were off 20% and stimulated keen competition among producers. Sales of building materials declined moderately due to market conditions. A number of processing and fabricating improvements were made in both of our Canadian building board plants. These will reduce costs and increase efficiencies to help offset pressures from higher labour, material and other costs. A warehouse and distribution centre was established in Montreal in order to make our products more readily available to Quebec customers.

Our versatile, wide variety of high quality panel products is becoming well established in the building material industries of Canada and the United States. These products range from the most economical to the finest panellings for residential, commercial and other uses.

Containers and Corrugating Medium

*container growth
exceeds industry
average*

The new Toronto corrugated container plant of Abitibi Containers Ltd. commenced production in June and operations have steadily improved. Pre-production and start-up costs were about as anticipated and have been absorbed against earnings. This new facility has enabled us to provide better service to our customers in the Toronto marketing area. Additional capacity, improved

service and careful coordination of production between our Pembroke and Toronto plants, resulted in greater shipments and a growth rate that exceeded the industry average. Continuing growth in demand for corrugated containers, plus our increased capacity, combine to offer excellent potential for this segment of our business.

*corrugating medium
capacity to be
increased*

Manufacturing facilities for corrugating medium at Sturgeon Falls operated at capacity throughout the year. Markets for this commodity continue to expand and we are unable to service the growing demand with our present facilities. Accordingly, we have embarked upon a program to increase the capacity of our corrugating medium machine. We are also adding to and changing process equipment. This expansion project will be carried out in stages, with some capacity increase becoming available during the latter part of 1967 and the balance in 1968.

Start-up of Kraft Pulp Operations

At the close of 1965, we completed the construction necessary for the conversion of the Smooth Rock Falls pulp mill to the production of bleached kraft pulp and commenced the start-up of the new facilities. Our previous 65,000 ton bleached sulphite capacity was converted and increased to more than 100,000 tons of bleached kraft pulp annually. The wood furnish at this mill is largely black spruce from which we produce softwood kraft pulp of the highest quality that is particularly suited to the manufacture of fine papers. Provincial Paper, Limited uses large quantities of this pulp, so that this development integrates well with our fine paper operations.

While we produced pulp of satisfactory quality throughout the year, we encountered an excessive number of mechanical and processing problems that required correction and we have not yet achieved our volume objectives. All costs connected with this start-up, and they have been substantial, have been written off as incurred. Operations continue to improve and it is anticipated that this mill will soon be contributing to company earnings.

Woodlands Activities

Pulpwood produced in the past season to meet the requirements of our mills in Ontario, Quebec, Manitoba and Michigan, amounted to 1,300,000 cords. About 10% of this furnish was in the form of wood chips made from sawmill and veneer mill residues. Close to half of the total quantity was produced in the course of operations on forest areas under our control. The balance was purchased from independent production sources.

*our objective:
maximum utilization
of forest resources*

With the objective of achieving maximum utilization of forest resources, in conjunction with pulpwood operations, we produce and sell an increasing volume of sawlogs, veneer bolts, etc. Other operators are permitted to produce from our forest areas, for the most part involving timber and tree species presently unsuitable for conversion at Abitibi mills. Pulpwood produced in these operations becomes a part of our wood furnish.

Recently negotiated labour agreements in our woodlands operations ensure stability of production over a two-year period. However, higher wage rates and an increasing need for skilled and experienced workers are the chief reasons for upward pressures on pulpwood costs. In this connection, it is most important that we increase productivity by the maximum utilization of new harvesting and delivery equipment that is now available or under development. In a one-year period we have added nearly ninety large skidding and processing units to our mechanical equipment fleet. While the capital investment is substantial, the acquisition of these and previous units

has made it possible, to this date, to convert more than half of our woodlands operations to tree-length logging methods. The result is a substantial increase in the productivity of woods labour.

*new tree-length
processors in use
this year*

On the horizon are additional developments in woods harvesting and delivery equipment. These should further increase productivity and contribute to cost reduction. Abitibi, through its participation in Logging Research Associates, is actively involved in the development of mechanized Arbomatik equipment. Field testing of the prototype Arbomatik tree-length processor has been completed and arrangements made for its commercial manufacture. Five of these processors are expected to be in use in Abitibi operations within the year. Development and testing of two additional new-type Arbomatik units is progressing satisfactorily. These units are designed to fell, self-load and transport full tree lengths from the stump to roadsides (or landings) for further processing.

*our roads also serve
recreational purposes*

Construction of forest roads and other facilities to improve access to standing timber was carried out in accordance with carefully planned development schedules. The extent to which these all weather private roads are made available for recreational uses is not generally known to the public. On limits in Ontario, Manitoba and Quebec, more than half of our road systems is made available for public use. A further 15% is used by hunters, fishermen and tourists under a permit system. We are unable to open the remainder because of safety considerations, ownership conditions and conflict with logging operations.

We enjoyed another year that was relatively free of serious fires on forest areas under our control. While we had a total of 32 fires on our limits, mostly as a result of lightning, damage was negligible because of prompt counter measures.

Research and Development

*research centre
is one of the finest
in the industry . . .*

Research and development activities received additional impetus with the completion and occupancy of our new research facilities on the outskirts of Metropolitan Toronto. Becoming a part of the Sheridan Park Research Community confirms our determination to maintain and intensify our efforts to progress through the application of scientific knowledge.

We now have one of the most modern and efficient research establishments in the industry, with fine facilities and equipment as well as competent personnel. The central location of our research centre and its proximity to our head office have improved coordination and administration of research efforts. This has made possible a marked increase of senior management's direct involvement in the planning, appraisal and direction of research activities. All expenses connected with this move have been taken up as operating costs in 1966.

Our new facilities provide tools such as the new "printability laboratory". Here we are equipped with commercial presses for printing all types and grades of paper. Many are run, literally by the mile, to measure "on the job" performance and to aid in the development of new printing papers for the future. Basic research into the intrinsic properties of wood species and their influence upon the final product received more emphasis. Increased attention also is being directed toward the treatment and possible recovery of raw materials from mill effluents so that all benefits from scientific knowledge and research can be brought to bear on this important problem. New products for our complex and broad line of building materials show encouraging possibilities for home and industry markets.

capital expenditures were \$24,572,294

Improvement and Expansion to Properties

Capital expenditures on properties, plant and machinery were \$20,842,103. In addition, we invested \$3,730,191 in woodlands equipment and development for a total capital outlay of \$24,572,294. This is a reduction from the 1965 total of \$31,621,570 but still a very substantial program. We anticipate that expenditures for these purposes in the coming year will again show a reduction.

All divisions of the company shared in the 1966 capital expenditure program. In addition to completing major expansion undertakings in kraft pulp and fine papers, we completed construction of the new container plant in Toronto and the new research centre at Sheridan Park. Emphasis was placed upon projects that increased efficiencies, reduced waste, improved customer service and enhanced product quality.

Capital expenditures for woodlands purposes were larger in 1966 than in any year during the past decade. The greater part of our outlay was for acquisition of mechanical equipment for the production and transportation of pulpwood, including conversion of operations to tree-length logging systems where justified by terrain and forest stands.

paper mills require vast quantities of fresh water

A pulp and paper mill requires vast quantities of fresh water in its manufacturing processes. Most of this water is subsequently discharged and we are constantly striving to reduce the release of any undesirable mill effluents. In this connection, we co-operate closely with governmental and regulatory authorities. Capital expenditures for this purpose have been and will continue to be substantial. In most instances, the direct economic return is quite low or non-existent.

Financial Position

financial position continues strong

Our financial position continues strong, although working capital and liquid resources declined during the year because of the substantial capital expenditure program and the discharge of long-term debt obligations. Total retirements of long-term debt were \$13,106,820, made up of convertible debentures of \$10,713,000, first mortgage bonds of \$1,749,000 and payments of \$644,820 on instalment notes. The growth in volume of business has, of course, necessitated an increased investment in accounts receivable and inventories. However, our cash generation is substantial and we will manage our affairs with due regard to our cash resources. We anticipate that temporary short-term borrowings will be needed from time to time and appropriate arrangements have been made.

final disposition of convertible debentures

Shareholders will be interested in the final disposition of the \$15,000,000 convertible debentures that were issued some ten years ago to mature September 15, 1966. Of the original issue, a total of \$10,675,000 was redeemed in cash and \$4,325,000 was converted into common shares at the conversion price of \$12.50 per share. There were 346,000 common shares issued on conversion of debentures and, of this total, all but 6,240 shares were issued prior to 1966.

Common Shares

8% increase in shareholders during year

There were 33,578 holders of our common shares at December 31, 1966, compared with 31,148 one year ago and 19,488 at the close of 1963. This is an increase of 8% in a one-year period and 72% since 1963, the year in which our shares were subdivided on a four for one basis.

During 1966, we issued 6,240 shares on conversion of debentures and 25,436 shares under the terms of the Key Employees' Stock Option Plan. There were 17,405,384 common shares outstanding at the close of 1966 compared with 17,373,708 shares at the close of 1965.

Ownership of Mineral Rights

As stated in previous annual reports, Abitibi is the owner of mineral and surface rights on more than 1,000 square miles of forest lands in the Province of Ontario. About 800 square miles of this holding is comprised of eight large blocks to the north west of the Lakehead and 216 square miles which lie between Timmins and Smooth Rock Falls. There are other smaller holdings also to the north of Timmins and in the Iroquois Falls area.

*new exploration
agreements*

The mineral potential of the area to the north of Timmins has attracted intense interest and activity, both prior to and following an important discovery in the Township of Kidd in 1964. Abitibi's contiguous 216 square mile holding in this area was the subject of an exploration agreement entered into with a large mining company in 1963. An exploration program, carried out in the interval, has failed to disclose commercially significant mineral deposits and, in accordance with its terms, this agreement came to an end in 1966. While exploration in this area is difficult, expensive and uncertain due to the great depth of overburden, interest continues at a high level. A second agreement for exploration of the same lands has been entered into with another prominent mining company. This agreement extends into 1971.

During 1966, we made an agreement also for exploration of mineral rights in the Iroquois Falls area on 39 half lots totalling just under ten square miles. This agreement is for a three year term.

As of this date we have no knowledge of any discovery of commercial value on our holdings. In the event that a finding of significant interest to shareholders is made, there will be prompt disclosure of information in our possession.

Head Office Relocation

*head office to move
to Toronto-Dominion
Centre*

Abitibi will move its head office into the new Toronto-Dominion Centre during the second half of 1967. After thorough study and lengthy consideration of all possible alternatives, we decided to sell our present holdings for redevelopment and move to new quarters in the centre of Toronto's downtown financial district.

This move reflects the growth, expansion and diversification of the company. We have outgrown the present head-office quarters on University Avenue. The new facilities will enhance communications and efficiency of operations which are now conducted in five different buildings.

Abitibi Personnel

In February we welcomed to our Board of Directors, Mr. Thomas J. Bell, President of Fiberglas Canada Limited, and a director of a number of other companies. Mr. Bell is a knowledgeable and capable Canadian business executive. His proven judgment and wide experience have been and will be a valuable asset in the administration of Abitibi affairs.

*planned policy
increases
management depth*

There were more changes in the Abitibi management organization in 1966 than in any recent year. These were largely the outcome of a planned policy to increase the depth of our management ranks and to broaden the experience and training of management personnel. We appointed two new vice-presidents and one of our vice-presidents retired at normal retirement date. There were three additions to our Management Committee and one retirement.

A number of collective agreements with employee unions terminated during the year and were renegotiated, mostly for a two-year period. These negotiations were carried out without interruption to operations, with the exception of the serious strike at Alpena.

The Directors take this opportunity to extend their sincere thanks to the employees of Abitibi whose diligence and effort contributed to the year's outcome.

Outlook

*increased
mechanization an
offset to higher costs*

For the second consecutive year we have shown increased sales and lower earnings. Cost penalties associated with development and expansion programs have coincided with a period of rapidly rising labour and material costs. While higher labour and material costs may be expected to remain with us, they will be offset in part by modest price adjustments and, more importantly, by increased mechanization of operations and the application of the enlarged productive capacities that have been developed.

*1967 forecast:
increased sales
and earnings*

For the year ahead, the realization of the earnings potential from existing facilities will be our primary concern. Capital expenditures on construction will be lower, although we will continue to build for the future to position ourselves to meet the challenge of the tremendous increase in demand for our products that will take place over the next ten years.

We expect an increase in sales of all Abitibi products in 1967, with the possible exception of building materials. Along with an increase in total sales we expect, at least, a modest increase in earnings for the full year.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "J.C. Roberts", written in a cursive style.

President

Toronto, February 8, 1967

Consolidated Net Earnings

	YEAR ENDED DECEMBER 31	
	1966	1965
Net sales	\$211,167,324	\$194,411,148
Cost of products sold and all expenses except items shown below	164,118,915	146,982,224
	<u>\$ 47,048,409</u>	<u>\$ 47,428,924</u>
Interest and other income	1,289,881	979,355
	<u>\$ 48,338,290</u>	<u>\$ 48,408,279</u>
Provision for depreciation	\$ 11,499,195	\$ 10,386,453
Provision for depletion	100,000	100,000
Employees' pension plans (note 8)	2,753,473	2,577,397
Interest on long term debt	2,904,564	2,406,376
Discount and expense on long term debt	48,137	42,046
	<u>\$ 17,305,369</u>	<u>\$ 15,512,272</u>
Earnings before taxes on income	<u>\$ 31,032,921</u>	<u>\$ 32,896,007</u>
Taxes on income—current	\$ 7,957,000	\$ 8,092,000
—deferred (note 3)	7,148,000	8,068,000
	<u>\$ 15,105,000</u>	<u>\$ 16,160,000</u>
Net earnings	<u>\$ 15,927,921</u>	<u>\$ 16,736,007</u>
Net earnings per common share	\$.91½	\$.96¼

Consolidated Retained Earnings

	YEAR ENDED DECEMBER 31	
	1966	1965
Retained earnings at beginning of year	\$119,433,745	\$112,425,480
Net earnings for the year	15,927,921	16,736,007
	<u>\$135,361,666</u>	<u>\$129,161,487</u>
Dividends declared on common shares	9,741,181	9,727,742
(being the dividends paid on April 1st, July 1st, October 1st, and payable January 1st)		
Retained earnings at end of year	<u>\$125,620,485</u>	<u>\$119,433,745</u>

Liabilities

	December 31,	
Current Liabilities:	1966	1965
Bank loan	\$ 270,850	\$ —
Accounts payable	17,297,766	19,404,167
Dividend payable January 1st	2,436,754	2,432,308
Interest accrued on long term debt	598,408	695,741
Income and other taxes	3,482,642	3,738,476
Payments due within one year on long term debt	1,577,365	11,859,582
	<u>\$ 25,663,785</u>	<u>\$ 38,130,274</u>
 Long Term Debt:		
4¼% First Mortgage Sinking Fund Bonds, Series B, due July 15, 1974	\$ 4,300,500	\$ 4,950,500
6¼% First Mortgage Sinking Fund Bonds, Series C, due November 15, 1977	7,058,000	8,157,000
5¼% Sinking Fund Debentures, Series A, due September 15, 1985 (\$20,000,000 U.S. funds)	21,500,000	21,500,000
4½% Convertible Debentures, Series A, due September 15, 1966 . . .	—	10,713,000
5½% Instalment Notes, due May 1, 1984 (\$13,800,000 U.S. funds) .	14,841,900	15,486,720
	<u>\$ 47,700,400</u>	<u>\$ 60,807,220</u>
Less—Amount included with current liabilities (note 4)	1,577,365	11,859,582
	<u>\$ 46,123,035</u>	<u>\$ 48,947,638</u>
 Deferred Taxes on Income (note 3)	 <u>\$ 21,854,500</u>	 <u>\$ 14,846,500</u>

Shareholders' Equity

Preferred Shares:

Authorized and unissued:		
450,000 shares par value \$25 each issuable in series	\$ —	\$ —

Common Shares: (note 5)

Authorized:		
24,000,000 shares without nominal or par value		
Issued:		
17,405,384 shares (1965—17,373,708 shares)	44,948,307	44,617,728

Retained Earnings	125,620,485	119,433,745
	<u>\$170,568,792</u>	<u>\$164,051,473</u>
	<u>\$264,210,112</u>	<u>\$265,975,885</u>

Consolidated Source and Application of Funds	1966	1965
Source of Funds:		
Net earnings	\$ 15,927,921	\$ 16,736,007
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion	11,599,195	10,486,453
Discount and expense on long term debt	48,137	42,046
Deferred taxes on income	7,148,000	8,068,000
Funds derived from operations	\$ 34,723,253	\$ 35,332,506
Disposal of capital assets	192,523	279,133
Issue of long term debt	—	21,500,000
Common shares issued under option agreements	252,579	20,000
	<u>\$ 35,168,355</u>	<u>\$ 57,131,639</u>
Application of Funds:		
Invested in properties, plant and equipment	\$ 20,842,103	\$ 30,417,767
Expenditures on logging equipment and development	3,730,191	1,203,803
Long term debt retired or included with current liabilities	2,746,603	13,207,709
Dividends declared on common shares	9,741,181	9,727,742
Special refundable tax—Canada	730,500	—
Other items—net	642,362	(177,401)
	<u>\$ 38,432,940</u>	<u>\$ 54,379,620</u>
Resulting in an increase (decrease) in working capital of	\$ (3,264,585)	\$ 2,752,019
Working capital at beginning of year	48,756,659	46,004,640
Working Capital at End of Year	<u><u>\$ 45,492,074</u></u>	<u><u>\$ 48,756,659</u></u>

Notes to Consolidated Financial Statements

- Balances and transactions in other currencies have been restated in Canadian dollars as follows:
Current assets and current liabilities at exchange rates in effect at December 31st; capital assets at rates in effect at dates of acquisition; long term debt at rates in effect when debt incurred; net sales and expenses of United States subsidiary companies at average rates for the year except for depreciation provisions which are on the same basis as the related capital assets.
- Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of \$8,356,788 at December 31, 1966, included at appraised values as at April 30, 1946 as reported by Coverdale & Colpitts, Consulting Engineers.

3. It is the company's general practice for income tax purposes to claim maximum depreciation allowances. Such allowances for 1966 are in excess of depreciation provided in the accounts. The resulting reduction of \$7,148,000 in income taxes currently payable has been charged against 1966 earnings and included in the total of \$21,854,500 set aside on the balance sheet as deferred taxes on income.
4. Sinking fund and instalment payment obligations for 1967 on long term debt, including payments based on 1966 earnings, amount to \$3,232,715 of which \$1,655,350 has been discharged by prior purchase and redemption of first mortgage bonds.
5. A total of 31,676 common shares were issued during the year being 6,240 shares on conversion of \$78,000 principal amount of Debentures and 25,436 shares under terms of the Key Employees' Stock Option Plan for an aggregate cash payment of \$252,579.

Of the authorized and unissued common shares, 249,100 shares are reserved under the Key Employees' Stock Option Plan. Options granted under this plan are for terms of up to ten years at market value at date of grant and may be exercised in annual instalments following fulfillment of service conditions. At December 31, 1966 options were outstanding on 61,800 shares at \$9.50 per share, 45,000 shares at \$9.875 per share and 108,900 shares at \$10.5625 per share, a total of 215,700 shares of which options covering 152,700 shares were held by officers of the company.

6. Under the terms of the Trust Indenture entered into in connection with the issue of 5¼% Sinking Fund Debentures, Series A, dividends on common shares subsequent to December 31, 1964 may not be more than consolidated net income earned after that date plus the sum of \$10,000,000.
7. Total remuneration of directors in 1966 (as directors and as officers) was \$193,950.
8. The amount charged to earnings in 1966 in respect of employees' pension plans includes payments on account of past service costs resulting from a retroactive improvement of benefits instituted in 1963. These past service pension costs are being funded over a period not exceeding 20 years. Based on the most recent independent actuarial report, the single-sum liability for unfunded pension benefits is estimated at \$3,350,000 at December 31, 1966.

Auditors' Report to the Shareholders

To the Shareholders of ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1966 and the consolidated statements of net earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of operations and source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, February 1, 1967

PRICE WATERHOUSE & CO.
Chartered Accountants

Management Committee



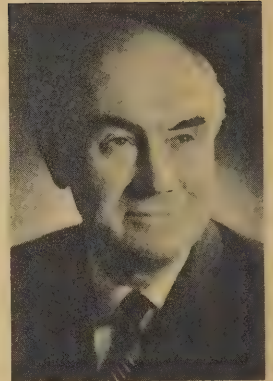
P.E. Roberts



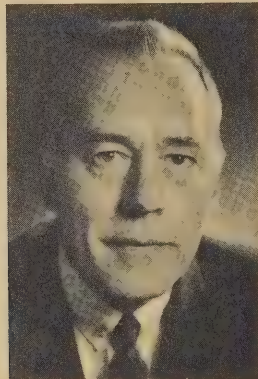
G.M. Brain



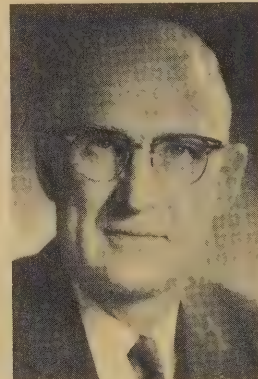
R.E.E. Costello



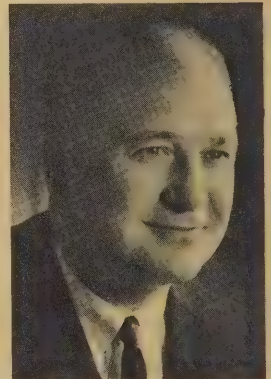
J.E. Cottrelle



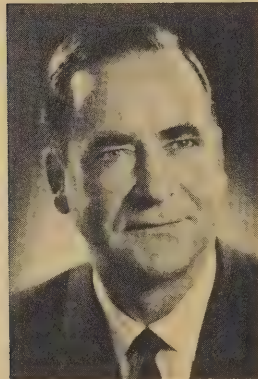
R.C. Gimlin



E.E. Grainger



T.N. McLenaghan



C.H. Rosier



W.S. Rothwell

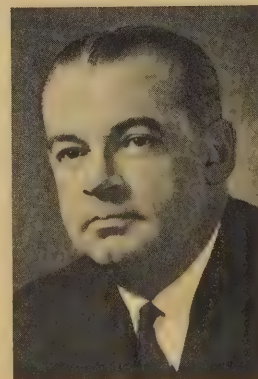


H.P. Armstrong

The widespread and diversified operations of Abitibi and associated companies are coordinated and controlled by a committee of executives holding senior management responsibilities. Members of the Management Committee are shown here.



J.E. Haire



H.G. O'Leary



J.B. Papoe

Manufacturing

Manufacturing transforms natural resources into Abitibi products that contribute to company growth.

The harvesting of our forests, scientific knowledge that tells us how best to use forest resources, and the skills of our production people are three closely integrated factors that establish Abitibi's competitiveness in the marketplace. Nowhere is the evolution of manufacturing methods more directly demonstrated than in our 17 mills and plants in Canada and the United States. A good example of this is our new twin-wire fine paper machine at Port Arthur, shown on this page.



Paragon Offset the coloured paper grade (India) used in this report is shown—left—on the reel at the Provincial Paper mill at Thorold.

Floor Conveyers at Iroquois Falls, right, move newsprint rolls to automatic wrapping equipment and an electronic data processing unit.



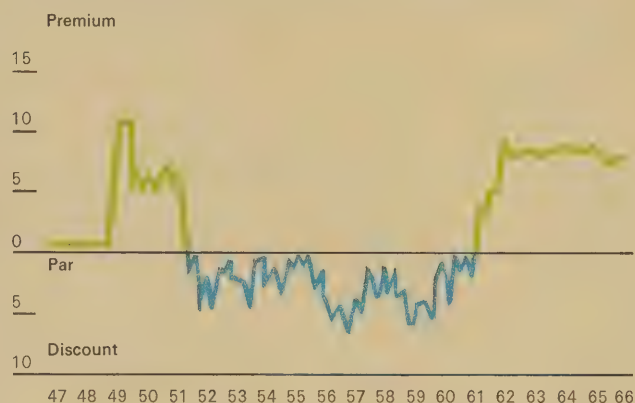
Our New Container Plant in Toronto, left, uses corrugating medium from Sturgeon Falls in the manufacture of corrugated containers.

Veneers and Hardwood Plywood Panels manufactured at our Durham, Ontario plant include mahogany grades from imported logs shown—right—on arrival from Africa.

**Distribution of
1966 and 1965
dollar sales
by
principal
markets**



Exchange rate on conversion of U.S. dollars 1947-66



**Production of
Paper, Pulp and
Board Products**

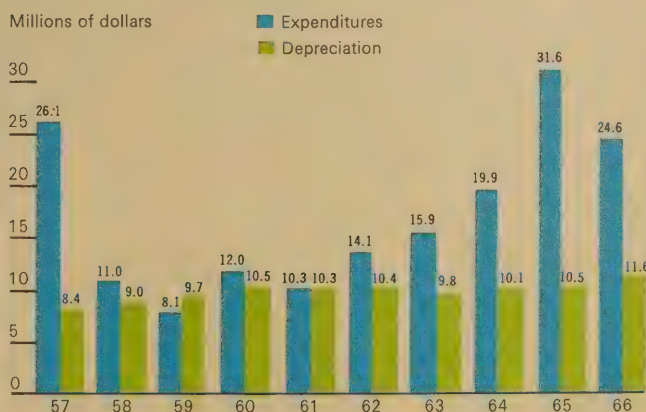
—tons

	Newsprint Paper	Fine and Printing Papers	Building Boards and Paperboard	Market Pulp	Total
1957	765,533	101,952	69,103	63,516	1,000,104
1958	692,781	96,905	114,202	51,446	955,334
1959	735,215	107,884	138,754	44,008	1,025,861
1960	780,043	112,137	144,834	40,672	1,077,686
1961	741,978	117,332	145,833	44,352	1,049,495
1962	756,021	123,939	164,166	36,301	1,080,427
1963	740,556	132,094	177,288	39,966	1,089,904
1964	819,260	132,283	205,100	55,866	1,212,509
1965	829,293	136,720	227,308	46,825	1,240,146
1966	890,810	158,430	206,500	56,100	1,311,840

In addition to these products,
Abitibi manufactures
corrugated containers,
veneered panellings,
decorative hardboard panels,
and fine hardwood veneers.

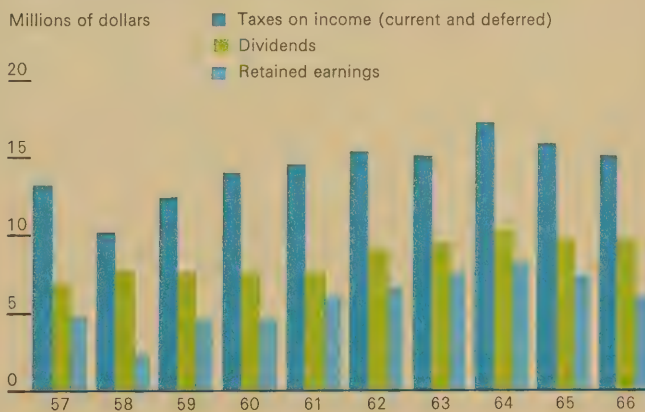
Capital expenditures and depreciation

Millions of dollars



Taxes on income, dividends and retained earnings

Millions of dollars



Ten Year Review

	1966	1965	1964
Sales and Earnings			
Net sales.....	\$211,167,324	\$194,411,148	\$184,708,539
Depreciation and depletion.....	11,599,195	10,486,453	10,141,903
Interest on long term debt.....	2,904,564	2,406,376	1,709,297
Earnings before taxes on income.....	31,032,921	32,896,007	35,431,698
Taxes on income (current and deferred)....	15,105,000	16,160,000	17,498,000
Net earnings.....	15,927,921	16,736,007	17,933,698
Net earnings per common share*.....	\$.91½	\$.96¼	\$ 1.01
Dividend Record			
On preferred shares.....	\$ —	\$ —	\$ 395,221
On common shares.....	9,741,181	9,727,742	9,639,413
Declared per common share*.....	\$.56	\$.56	\$.56
Capital Expenditures			
On properties, plant and equipment.....	\$ 20,842,103	\$ 30,417,767	\$ 19,115,962
On logging equipment and development....	3,730,191	1,203,803	770,619
On timber limits.....	—	—	—
Financial Position			
Current assets.....	\$ 71,155,859	\$ 86,886,933	\$ 71,377,206
Current liabilities.....	25,663,785	38,130,274	25,372,566
Net working capital.....	45,492,074	48,756,659	46,004,640
Capital assets, at net book values.....	187,076,563	174,295,987	153,440,003
Investments and other assets.....	5,977,690	4,792,965	4,838,412
Long term debt (net of current portion)....	46,123,035	48,947,638	40,739,347
Deferred taxes on income.....	21,854,500	14,846,500	6,604,500
Equity of shareholders.....	170,568,792	164,051,473	156,939,208
Equity of Shareholders			
Equity of preferred shareholders.....	\$ —	\$ —	\$ —
Equity of common shareholders.....	170,568,792	164,051,473	156,939,208
Outstanding common shares*.....	17,405,384	17,373,708	17,364,988
Equity per common share*.....	\$ 9.80	\$ 9.44	\$ 9.04

*The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split on November 30, 1963.

1963	1962	1961	1960	1959	1958	1957
\$164,575,637	\$156,005,549	\$147,587,462	\$146,339,604	\$133,813,074	\$123,385,542	\$128,198,755
9,853,823	10,369,899	10,289,473	10,463,547	9,680,353	9,039,110	8,434,717
1,652,146	1,738,212	1,828,793	1,869,249	2,008,936	2,083,546	1,652,016
31,247,502	31,275,251	28,267,636	26,066,288	24,525,544	20,127,382	25,552,283
15,040,000	15,780,000	14,557,000	13,800,000	12,700,000	10,470,000	13,050,000
16,207,502	15,495,251	13,710,636	12,266,288	11,825,544	9,657,382	12,502,283
\$.93	\$.90¼	\$.79½	\$.70¾	\$.68	\$.54¾	\$.71½
\$ 412,046	\$ 433,026	\$ 453,504	\$ 471,199	\$ 507,803	\$ 547,796	\$ 578,441
8,682,138	8,330,868	7,077,577	7,077,579	7,077,579	7,077,582	7,077,580
\$.51½	\$.50	\$.42½	\$.42½	\$.42½	\$.42½	\$.42½
\$ 15,007,893	\$ 13,222,400	\$ 9,729,078	\$ 10,340,956	\$ 7,105,455	\$ 10,423,905	\$ 25,194,262
950,320	890,700	594,279	1,666,438	955,345	592,602	894,624
—	—	—	—	—	14,344	53,508
\$ 64,029,331	\$ 65,886,200	\$ 63,107,968	\$ 61,091,507	\$ 60,070,996	\$ 57,714,700	\$ 62,169,246
26,067,715	25,786,818	22,064,539	22,513,567	20,312,046	17,317,852	20,557,436
37,961,616	40,099,382	41,043,429	38,577,940	39,758,950	40,396,848	41,611,810
143,912,115	132,606,747	128,985,592	129,030,527	126,113,480	127,995,218	126,082,118
4,574,257	5,528,727	5,644,395	4,713,044	3,498,462	2,547,639	3,964,105
31,677,969	33,677,500	37,410,000	39,897,500	40,632,000	45,555,500	47,984,000
1,485,000	—	—	—	—	—	—
153,285,019	144,557,356	138,263,416	132,424,011	128,738,892	125,384,205	123,674,033
\$ 8,990,450	\$ 9,339,300	\$ 9,908,425	\$ 10,248,575	\$ 10,836,425	\$ 11,721,900	\$ 12,552,000
144,294,569	135,218,056	128,354,991	122,175,436	117,902,467	113,662,305	111,122,033
16,971,108	16,666,736	16,652,872	16,652,872	16,652,872	16,652,872	16,652,872
\$ 8.50	\$ 8.11	\$ 7.71	\$ 7.34	\$ 7.08	\$ 6.82	\$ 6.67

Abitibi Companies and Products



Abitibi Paper Company Ltd.

Parent company with manufacturing operations in Ontario

Head Office: Toronto, Ont.

Newsprint: Iroquois Falls, Fort William and Port Arthur, Ont.

Newsprint and groundwood specialty papers: Sault Ste. Marie, Ont.

Bleached kraft pulp: Smooth Rock Falls, Ont.

Corrugating medium, hardboard and particle board panels: Sturgeon Falls, Ont.

Abitibi Paper Sales Ltd.

Sales agent for newsprint, groundwood specialty papers, bleached kraft pulp and corrugating medium.

Sales Offices: Toronto 2, Ontario: Montreal, Que.

Subsidiary company:

ABITIBI SERVICE INC. Serving customers in the United States

Offices: Dayton, Ohio; New York, N.Y.; Chicago, Ill.

Abitibi Corporation

Manufacture and sale of hardboard panels and insulation (boards) in United States

Plant: Alpena, Mich., Executive Offices, Birmingham, Mich.

Sales Offices: Birmingham, Mich.; Chicago, Ill.; Dayton, Ohio.

MIRATILE PANEL PRODUCTS DIVISION

Decorative hardboard and plywood panel products

Chicago, Ill. and Cucamonga, Calif.

Provincial Paper, Limited

Manufacture and sale of fine and printing papers

Machine and trailing blade coated papers, bristols and other heavyweight specialties, coated and uncoated: Port Arthur, Ont.

Book, writing and specialty papers: Thorold, Ont.

Coated printing and litho papers: Georgetown, Ont.

Sales Offices: Toronto, Ont.; Montreal, Que.; Winnipeg, Man.

Abitibi Manitoba Paper Ltd.

Manufacture of newsprint: Pine Falls, Man.

Abitibi St. Anne Paper Ltd.

Manufacture of newsprint: Beaufort, Qué.

Subsidiary companies:

ST. ANNE POWER COMPANY

BAIE ST. PAUL LUMBER COMPANY LIMITED

Conducting woodlands operations from Beaufort, Qué.

Abitibi Containers Ltd.

Manufacture and sale of corrugated containers: Pembroke and Toronto, Ont.

Abitibi Panel Products Ltd.

Manufacture of veneers and hardwood plywoods: Durham, Ont.

Sales of veneers and hardwood plywoods

Sales agent for Abitibi hardboards and particle board panels,

Sales Offices, Toronto, Ont., Montreal, Que., Winnipeg, Man.

Other Subsidiary Companies:

Abitibi Aviation Limited: Toronto, Ont.

Mattagami Railroad Company: Smooth Rock Falls, Ont.

Geomont Exploration Company Limited: Toronto, Ont.

Our Products

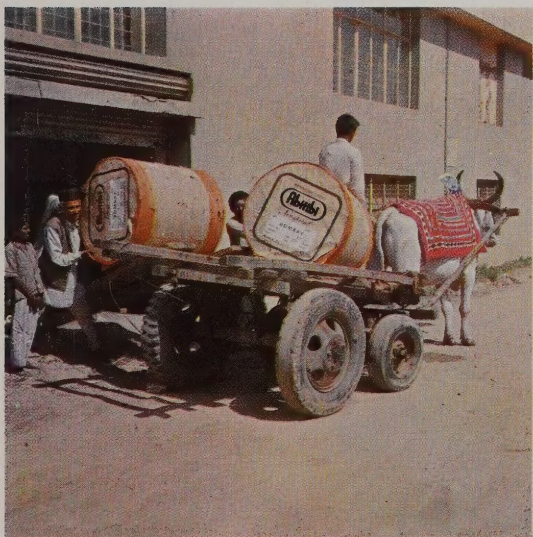
Resources, research and manufacturing converge in Abitibi products for world markets.

Just as the cycle of Canada's economic prosperity achieves its momentum from the sale and use of her products and services, so Abitibi's progress is paced by the sale and end use of its products.

All of the planning, skill, talent and experience of Abitibi people everywhere, combine to harvest the forests, to produce the product, to constantly improve it, to market it competitively, to find new uses for traditional products, to develop and introduce new products for new markets.

While newsprint is the major product of Abitibi, the company's diversification program provides many fine products that serve a multitude of needs.

Some end uses of these products are illustrated on this and the following pages.



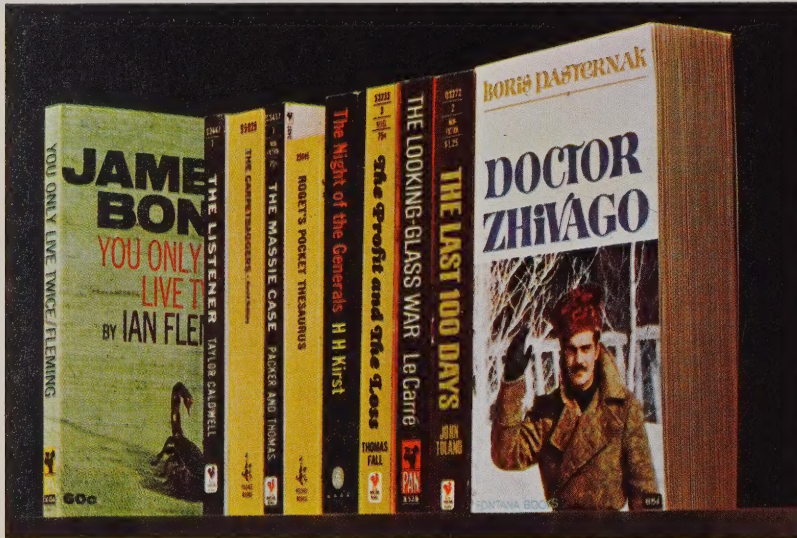
As the vehicle of current events for all ages (right above), the presses (lower right) of hundreds of newspapers in Canada, the United States and overseas countries are fed by Abitibi newsprint. Shown above, a shipment of our newsprint is delivered to a publisher's plant in New Delhi, India.



An infinite variety of products, a few of them at the right, are produced from Provincial's fine paper grades. These include letter-heads, stationery, exercise books, place mats, record jackets, box wraps, labels and flour bags.

Paper-back books, directly below, are printed on Abitibi groundwood specialty papers, one of the many uses for this grade.

Hard-cover books, magazines and catalogues, bottom photo, are printed on Provincial's uncoated and machine-coated printing papers.



Custom designed corrugated containers, right and below, have won an enviable reputation for Abitibi Containers Ltd. The Gold and Silver award in the engineering category of the 1966 Canadian Packaging Show speaks for achievement in quality, service and design.



Panel Products by Abitibi bring warmth and charm to the decor of homes and offices. Shown at left is an installation of decorative hardboard with Mar-Gard finish, which provides lifetime protection against scuffs, scratches and stains. The plywood panelling shown above is Rustic American Black Walnut from Durham.



Among the many activities presented during Canada's Centennial Year, the World's Fair in Montreal—Expo 67—will be a major attraction.

Abitibi is at the Fair as one of the sponsoring companies of the Canadian Pulp and Paper Pavilion which we invite you to visit.



Lithographed in Canada on Twincoat Cover, Paragon Offset India and Georgian Offset Smooth all products of Provincial Paper, Limited, Abitibi's fine paper division.